



Annual Report 1974 · H. Paulin & Co., Limited

DIRECTORS

*Dr. Irving Betcherman, Toronto
Ayton G. Keyes, Ottawa
*Arthur Paulin, Toronto
Harry Paulin, Toronto
Stanley F. Paulin, Toronto
*Vincent P. Reid, Q.C., Toronto
Sydney L. Robins, Q.C., Toronto

OFFICERS

Harry Paulin
Arthur Paulin
Stanley F. Paulin
Joyce Mair

HEAD OFFICE

AUDITORS

LEGAL COUNSEL

TRANSFER AGENT AND REGISTRAR

SHARES LISTED

Director, The Ingot Metal Co. Limited
President, Keyes Investments Limited
H. Paulin & Co. Limited
H. Paulin & Co. Limited
H. Paulin & Co. Limited
Director, Cochran Murray & Wisener Limited
Partner, Robins and Robins
*Member of the Audit Committee

Chairman of the Board
President
Vice-President, Secretary
Treasurer

55 Milne Ave., Scarborough, Ont.
Touche Ross & Co., Toronto, Ont.
Robins and Robins, Toronto, Ont.
Canada Trust Company,
Toronto, Vancouver, Edmonton
and Winnipeg

The Toronto Stock Exchange



Annual report 1974 • H. Paulin & Co., Limited

Financial Highlights	1974	1973
Sales	\$13,537,204	\$11,798,521
Net Profit	\$ 929,097	\$ 756,947
*Earnings per Share	88.5¢	72¢
Dividend Paid	\$ 116,863	\$ 105,000
*Dividend per Share	12.5¢	10¢
*Shareholder's Equity per Share	\$ 5.59	\$ 4.81
Working Capital	\$ 4,754,642	\$ 4,114,334

*Based on 1,050,000 shares outstanding



To our Shareholders

It is a pleasure for me to be able to report to you that in 1974 we had the best year in our fifty-five year history.

Consolidated sales increased by 15% to \$13,537,204 and net earnings were up 22.7% at \$929,097 or 88.5¢ per share.

In December 1974 the Company paid a dividend of 12.5¢ per Class "A" share and 10.6¢ per Class "B" share. Our share capital was reorganized during the year so that shareholders could receive either taxable dividends or tax-deferred dividends at their option.

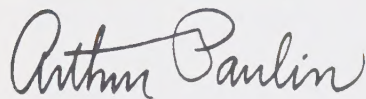
Capital equipment purchases amounted to \$539,000. The expected improvements in production from the extensive modernization programs of the last two years were realized and the Capital Metal Industries Division made an important contribution to the profit of the Company. In 1975 we expect to invest \$350,000 in the purchase of additional equipment.

In order to service the heavy demands of customers, and faced with the shortages of raw materials, finished products and the added problem of price instability, our purchasing policies resulted in inventories that are at historical highs. Steps have been taken to reduce inventory to return our turnover ratios to traditional levels.

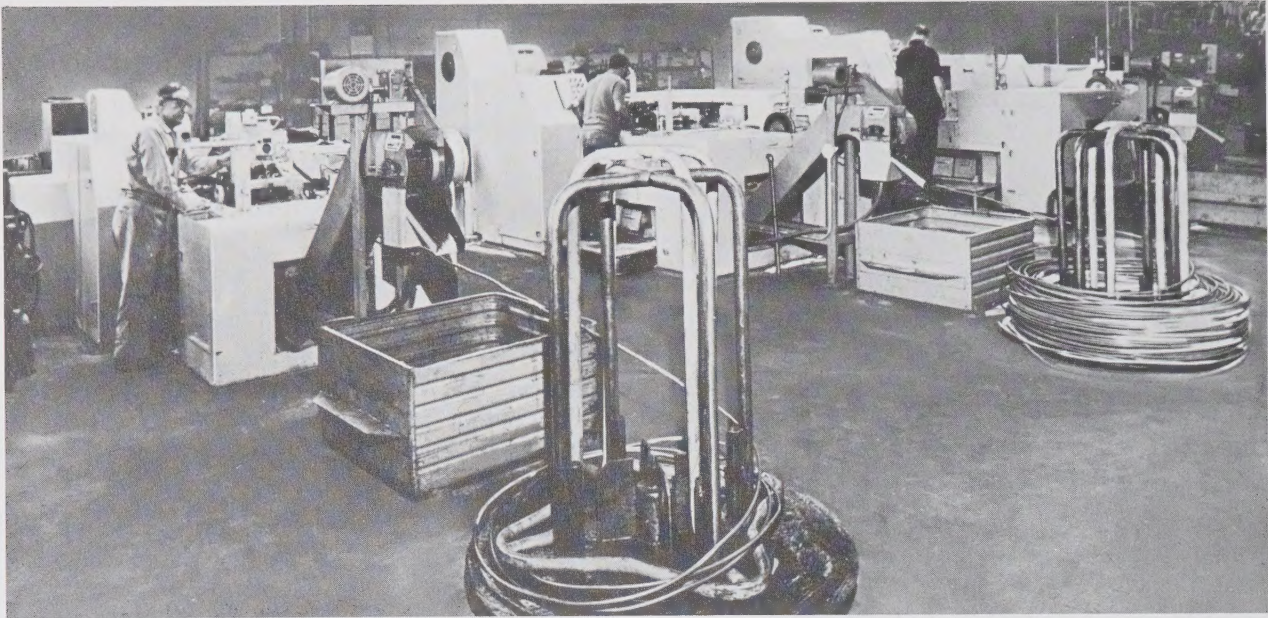
We welcome to the Board Dr. Irving Betcherman of The Ingot Metal Co. Ltd. His experience and advice have already been most valuable to the Company. We also wish to acknowledge the contribution of Mr. L. S. Brody, who was a director since the Company went public and until his retirement from the Board in June of 1974.

The performance of the Company is a reflection of the individual efforts of our employees. I would like to take this opportunity to thank them and express appreciation for their continued support.

On behalf of the Board of Directors, I am pleased to present to you the financial statements for the year ended December 31, 1974.



May 7, 1975.



New High-Speed Nut Former Line



Automatic Packaging Equipment

Operations

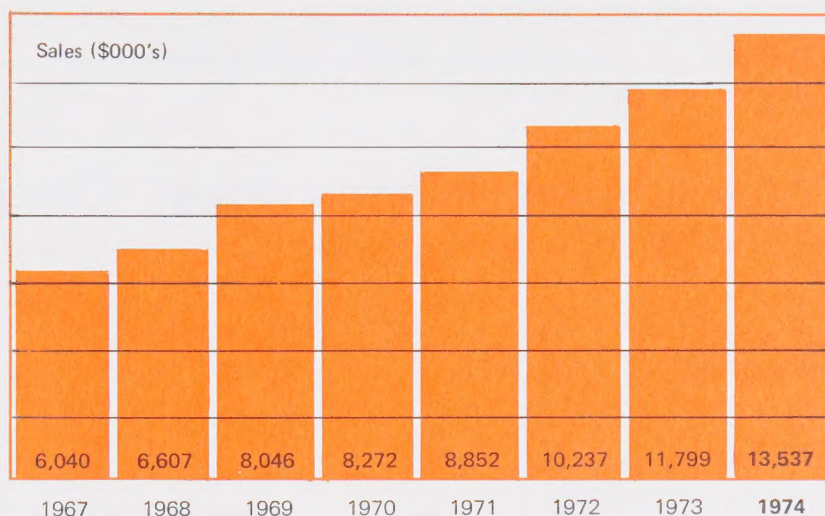
The modernization and expansion of our manufacturing facilities continued as planned throughout 1974. High Speed Cold Nut Forming and Tapping equipment, the most modern in the industry, was installed. Our continuing program of machine rebuilding increased output and efficiencies in all departments. Additional multi-spindle automatic screw machine capacity was also installed. Electronic control devices were added to more of our punch presses and resulted in higher output in that department.

Through-feed thread rolling equipment for the production of studs and threaded rod up to 2" in diameter was put into operation during the year.

New materials handling equipment for both bulk and finished products and the addition to our packaging line of new automatic electronic counting machines helped us achieve the record output of 1974.

Marketing

Industrial production and the related demand for fasteners reached new peaks in 1974. For the eighth consecutive year the company set new sales records.



Automotive Servicing



Industrial Maintenance

Automotive aftermarket

The number of vehicles in use in Canada continues to increase and the demand for fasteners and replacement parts for this market reached their highest levels in 1974. "Papco" merchandised fasteners, designed for the service trade, continue to enjoy a large share of this market through our Warehouse Distributors and Jobbers.

Industrial and hardware distributors

The shortages that were experienced during most of 1974 made it difficult to maintain an acceptable level of service in this market. While sales increased, the full potential was not realized. Since the fourth quarter, the supply and demand levels have changed markedly and our customary service has been restored.

Other markets

Increased sales in the agricultural, truck and other manufacturing markets more than offset declines in sales to the automotive manufacturers. Sale of stainless and non-ferrous fasteners to the construction and process industries showed substantial gains. To overcome the decline in fluid system component sales an aggressive program to increase the penetration of the industrial market is being pursued.

Outlook

The world economic slowdown has reduced the demand for fasteners and the effects have been felt by your Company in the first quarter of 1975. Inflationary pressures continue to force costs higher in spite of the weakened market. We are confident that our basic strength as an efficient producer of fasteners will enable us to maintain our market position and resume our growth pattern as the expected recovery occurs.



H. Paulin & Co., Limited and its wholly-owned subsidiary
(Incorporated under the Laws of Ontario)

Consolidated balance sheet · December 31, 1974 (with comparative)

	ASSETS	
	1974	1973
Current		
Accounts receivable	\$ 2,209,934	\$2,090,111
Inventories	6,253,202	4,200,469
Income taxes recoverable	—	12,160
Sundry assets and prepaid expenses	121,120	96,381
	<u>8,584,256</u>	<u>6,399,121</u>
Plant and equipment, office fixtures, vehicles and leasehold improvements, at cost less accumulated depreciation and amortization of \$1,336,546 (1973; \$1,095,272)	1,455,862	1,112,264
	<u>\$10,040,118</u>	<u>\$7,511,385</u>

On behalf of the Board

Arthur Paulin
Director

Stanley F. Paulin
Director

ures for 1973)

LIABILITIES		1974	1973
Current			
Bank indebtedness (Note 3)		\$ 2,275,903	\$1,270,268
Accounts payable and accrued charges (Note 6)		1,180,925	1,014,519
Income taxes		372,786	—
		<u>3,829,614</u>	<u>2,284,787</u>
Deferred income taxes		345,052	173,380
		<u>4,174,666</u>	<u>2,458,167</u>

SHAREHOLDERS' EQUITY			
Capital stock (Note 2)			
Authorized			
2,000,000	Class A convertible common shares without par value		
2,000,000	Class B convertible common shares without par value		
2,000	Common shares without par value		
Issued			
1,050,000	Class A and B shares	1,016,188	1,016,188
Retained earnings		4,849,264	4,037,030
		<u>5,865,452</u>	<u>5,053,218</u>
		<u>\$10,040,118</u>	<u>\$7,511,385</u>



H. Paulin & Co., Limited and its wholly-owned subsidiary

Consolidated statement of income and retained earnings

for the year ended December 31, 1974

(with comparative figures for 1973)

	1974	1973
Sales	<u>\$13,537,204</u>	<u>\$11,798,521</u>
Income from operations before the following charges	<u>\$ 4,028,842</u>	<u>\$ 3,246,242</u>
Selling, general and administrative expenses	<u>1,884,772</u>	<u>1,652,147</u>
Depreciation and amortization	<u>195,191</u>	<u>172,521</u>
Interest	<u>189,604</u>	<u>38,791</u>
	<u>2,269,567</u>	<u>1,863,459</u>
Income before taxes	<u>1,759,275</u>	<u>1,382,783</u>
Taxes on income	<u>830,178</u>	<u>625,836</u>
Net income	<u>929,097</u>	<u>756,947</u>
Retained earnings, January 1	<u>4,037,030</u>	<u>3,408,646</u>
	<u>4,966,127</u>	<u>4,165,593</u>
Payment of tax under Section 196 (1) of the Income Tax Act	—	23,563
Dividend paid	<u>116,863</u>	<u>105,000</u>
Retained earnings, December 31	<u>\$ 4,849,264</u>	<u>\$ 4,037,030</u>
Earnings per share	<u>88.5¢</u>	<u>72.0¢</u>
Dividend per share	<u>12.5¢</u>	<u>10.0¢</u>

Auditors' report

The Shareholders,
H. Paulin & Co., Limited.

We have examined the consolidated balance sheet of H. Paulin & Co., Limited and its subsidiary as at December 31, 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Toronto, Ontario,
April 16, 1975.

Touche Ross & Co.
Chartered Accountants.

Consolidated statement of changes in financial position

for the year ended December 31, 1974

(with comparative figures for 1973)

	<u>1974</u>	<u>1973</u>
Source of funds		
From operations		
Net income	\$ 929,097	\$ 756,947
Charges not requiring an outlay of funds		
Depreciation and amortization	195,191	172,521
Deferred income taxes	171,672	39,537
	<u>1,295,960</u>	<u>969,005</u>
Application of funds		
Acquisition of fixed assets — net	538,789	509,785
Dividend paid	116,863	105,000
Payment of tax under Section 196 (1) of the Income Tax Act	—	23,563
	<u>655,652</u>	<u>638,348</u>
Increase in working capital	640,308	330,657
Working capital, January 1	<u>4,114,334</u>	<u>3,783,677</u>
Working capital, December 31	<u><u>\$4,754,642</u></u>	<u><u>\$4,114,334</u></u>

Notes to the consolidated financial statements

December 31, 1974

1. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of H. Paulin & Co., Limited and its wholly-owned subsidiary.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Plant and equipment, office fixtures, vehicles and leasehold improvements

Expenditures for additions and major improvements are capitalized while those for maintenance and repairs are expensed as incurred. The costs and accumulated depreciation applicable to assets sold or retired are removed from the respective accounts and gains or losses thereon are credited or charged to income.

Provision for depreciation is computed by the diminishing balance method based on the estimated useful lives of the related assets. Leasehold improvements are amortized by the straight line method over the terms of the leases.

(d) Deferred income taxes

Deferred income taxes arise primarily from timing differences between financial and income tax reporting of depreciation charges.

2. Capital stock

(a) The share capital was changed, as approved by the shareholders on June 11, 1974 and confirmed by articles of amendment, to reclassify the previously authorized 2,000,000 common shares without par value to 2,000,000 Class A convertible common shares without par value, 2,000,000 Class B convertible common shares without par value and 2,000 common shares without par value.

Class A and B shares are inter-convertible on a share for share basis and the rights of each class are identical to the previous common shares. Both classes of shares rank equally as to dividends but the Directors may elect to declare and pay a dividend on the Class B shares first out of 1971 tax-paid undistributed surplus on hand and then out of 1971 capital surplus on hand (as those expressions are defined in the Income Tax Act of Canada) provided that a cash dividend is declared and paid on the Class A shares in an amount equal to the sum of the cash dividend on the Class B shares plus the tax paid to create the tax paid undistributed surplus.

During the year, 758,597 Class B shares were issued as a result of the aforementioned conversion right.

Changes in the issued share capital during the year were as follows:

	Convertible Common		
	Class A	Class B	Common
Shares issued and outstanding December 31, 1973			1,050,000
Common shares reclassified as Class A	1,050,000		(1,050,000)
Class A shares converted into Class B	(758,597)	758,597	
Shares issued and outstanding December 31, 1974	291,403	758,597	Nil

(b) The Company established a Share Purchase Plan during 1972. Under the Plan, as at December 31, 1974, 4,905 shares (1973 — 15,930 shares) were allotted to employees at \$4.25 per share. The purchase price for these shares is to be paid on an instalment basis by payroll deductions and no shares are issued prior to payment in full. No shares have been issued under this plan.

(c) Under a proposed Stock Option Plan, 45,095 shares (1973 — 34,070 shares) were reserved as at December 31, 1974. No options have been granted under this plan.

3. Bank indebtedness

The Company has given a general assignment of its accounts receivable as security for its bank indebtedness.

4. Remuneration of directors and senior officers

Remuneration of directors and senior officers of the Company for the year ended December 31, 1974 was \$223,000 (1973 — \$195,938).

5. Lease obligations

Annual rentals payable under long-term leases which expire at various dates up to 1989 are approximately \$170,000.

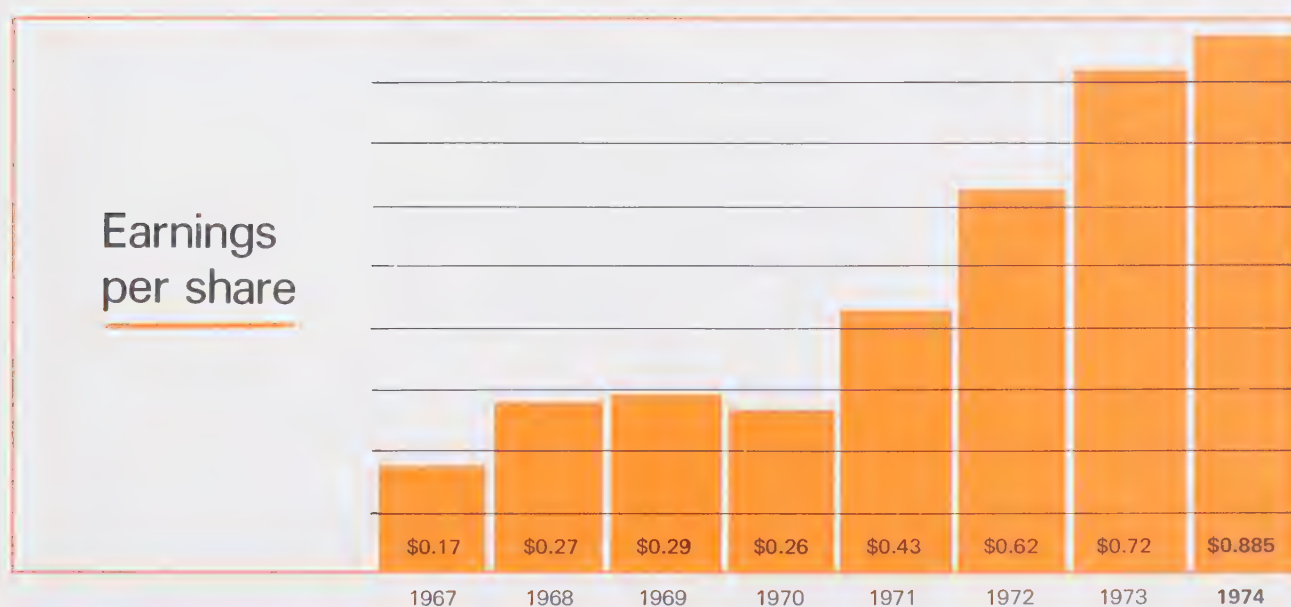
6. Accounts payable

Accounts payable of approximately \$175,000 are secured by equipment purchased during the year.

Eight year statistical summary • Years ending December 31, 1967 – 1974

Dollars in thousands excepted as indicated†	1967	1968	1969	1970	1971	1972	1973	1974
Sales	\$6,040	6,607	8,046	8,272	8,852	10,237	11,799	13,537
Depreciation	\$ 78	84	94	96	118	132	173	195
Income Taxes	\$ 214	311	371	306	455	626	626	830
Net Income	\$ 178	285	308	276	454	654	757	929
Earnings per Share*†	\$ 0.17	0.27	0.29	0.26	0.43	0.62	0.72	0.885
Net Income % of Sales	2.9	4.3	3.8	3.3	5.1	6.4	6.4	6.9
Additions to Fixed Assets	\$ 12	101	193	260	223	216	510	539
Working Capital	\$1,412	1,941	2,156	2,432	2,733	3,784	4,114	4,754
Shareholders' Equity	\$1,892	2,153	2,452	2,728	3,181	4,424	5,053	5,865
Return on Equity %	9.9	14.1	13.4	10.7	15.4	17.2	16.0	17.0

*Based on 1,050,000 shares outstanding as at December 31, 1974.





Our new trademark

For more than half a century the "Papco" trademark has been familiar to fastener users. From the publication of our first catalogue in 1925, right up to the present, our logo has undergone a continuous series of design changes. Each change was contemporary with its era and will be remembered with nostalgia by many customers and employees.

In this report we present the new "Papco" — a logo created by James Lumbers A.O.C.A. — to signify by its modern, distinctive design the forward look of a Company with a history of fifty-five successful years.



1925



1935

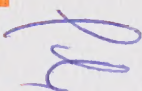


1945



1965

papco



Paulin

H. Paulin & Co., Limited

**INTERIM REPORT
TO SHAREHOLDERS**

SIX MONTHS ENDED JUNE 30, 1974



TO OUR SHAREHOLDERS:

H. Paulin & Co., Limited and its wholly-owned subsidiaries

We are pleased to advise you that the interim statement of your Company for the six months ended June 30, 1974 indicates after-tax profits of \$492,800 or 47 cents per common share. This compares with \$388,900 or 37 cents per share for the same period in 1973 and represents an increase in earnings of 27%.

Sales volume at \$7,211,200 is 19% ahead of the \$6,048,800 sales for the six months ended June 30, 1973.

To date this year \$206,000 has been invested in capital equipment. Our hexagon nut cold forming machines are scheduled to arrive shortly and preparations have been made to commence immediate production.

Material and labour shortages continue to create problems in servicing the high level of orders being received. Steps to alleviate this situation, including the purchase of premium priced materials and finished goods, are being taken in the interest of customer service. We feel that any short term effect on profits will be more than offset by long term improved customer relations.

In spite of the current difficulties, the Company is achieving record results and we are confident that your management will meet the challenge and make 1974 another successful year.

ARTHUR PAULIN
President

August 8, 1974

CONSOLIDATED STATEMENT OF INCOME (unaudited) Six Months ended June 30, 1974 with 1973 comparisons

	1974	1973
Sales	\$ 7,211,200	\$ 6,048,800
Income from operations before the undernoted	1,011,800	858,000
Depreciation and amortization	82,000	70,100
Income from operations	929,900	787,900
Taxes on income	437,000	399,000
Net income	\$ 492,800	\$ 388,900
Earnings per share (1,050,000 shares)	47¢	37¢

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS (unaudited) Six Months ended June 30, 1974 with 1973 comparisons

	1974	1973
Source of funds:		
From operations		
Net income	\$ 492,800	\$ 388,900
Add depreciation	82,000	70,100
	\$ 574,800	\$ 459,000
Use of funds:		
Additions to fixed assets	\$ 160,600	\$ 219,000
Increase in working capital	414,200	240,000
	\$ 574,800	\$ 459,000